Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Ameritech Operating Companies'	)	
New Expanded Interconnection Tariff	)	CC Docket No. 96-185
	)	
Bell Atlantic Telephone Companies'	)	
New Expanded Interconnection Tariff	)	CC Docket No. 96-165
	)	
Puerto Rico Telephone Company's	)	
New Expanded Interconnection Tariff	)	CC Docket No. 96-160

REBUTTAL OF AMERITECH IN RESPONSE TO OPPOSITIONS TO ITS DIRECT CASE

Ameritech[1] files this rebuttal in response to the oppositions to its direct case that were filed by MCI and WorldCom.

I. THE COST OF CAPITAL USED BY AMERITECH IS APPROPRIATE.

MCI argues that Ameritech's use of a cost of capital of 11.5% is inappropriate.[2] It complains that there is no reason to believe that any LEC would need to borrow money to support interconnection services -- apparently arguing that cost of capital should not be considered a cost of providing collocation service. Such a claim is ridiculous. Debt and equity capital supply all of a carriers' services and the cost of that capital is appropriately recouped by the charges for individual services.

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[1] Ameritech means: Illinois Bell Telephone Company, Indiana Bell Telephone Company, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company, and Wisconsin Bell, Inc.

[2] MCI at 5-6.

Further, MCI complains that Ameritech has provided no evidence that its cost of capital is actually 11.5%. That is not true. Ameritech's direct case answer to the question posed in ¶39 of the Designation Order, and Attachment E of its direct case specifically show how the forward-looking cost of capital determination was arrived at. Thus, Ameritech has complied with the Bureau's requirement that the "percentage cost of capital must be fully explained and justified to the extent that it exceeds 11.25 percent."[3]

II. AMERITECH'S COBO AND TRANSMISSION NODE ENCLOSURE NONRECURRING CHARGES ARE REASONABLE.

MCI complains about Ameritech's central office build-out ("COBO") and transmission node enclosure nonrecurring charges ("NRCs").[4] As Ameritech stated in its direct case answer to question in ¶¶13 and 48 of the Designation Order, the vast bulk of the COBO NRC recovers nonrecurring investment -- primarily in the form of capitalized labor. Of these costs, 70% are not "reusable" -- or would have to be incurred in full for a second and subsequent interconnecting parties. These costs are associated with engineering and design for the specific interconnection arrangement. The remaining 30% of these costs are associated with construction and security for the common collocation area. Recovery of these latter costs was based on anticipated levels of collocation activity. All of these costs were amortized over the life of a building -- approximately forty years -- and only seven years of these of total costs, at present value, were factored into the NRC. Thus, the NRC is set intentionally low, anticipating the

[3] Designation Order at ¶39.

[4] MCI at 6-7.

possibility of subsequent activity. In addition, there is significant uncertainty that there will be a subsequent collocator that will actually occupy the space vacated by an initial interconnector with similar COBO requirements from whom those COBO costs can be recouped.

MCI further specifically complains that Ameritech has failed to justify the fact that it does not provide for a refund of the undepreciated value of the transmission node enclosure. First, however, a "cage" is completely optional. The collocator need not have one. Second, if the collocator wants one installed, it does not have to hire Ameritech to do it -- *i.e.*, it can contract directly with an approved vendor. Third, if Ameritech is hired to do the job, it will build the cage to the customers specification, and therefore, the cage may not be usable by a subsequent collocator that has different needs. Fourth, if a collocator vacates the collocation space, Ameritech does not require the collocator to remove the cage nor does it charge the collocator for its removal, even if the subsequent use of the space requires that the cage be dismantled. Fifth, if the collocator uses the space occupied by a previous collocator that installed a transmission node enclosure, the subsequent collocator may use the enclosure without additional charge.

Given all of these facts, Ameritech's COBO and transmission node enclosure NRCs are reasonable. MCI complains that interconnectors "should not be required to pay for services that they do not use."[5] On the other hand, collocators should not be absolved of the responsibility for paying for costs that they do cause.

[5] *Id.* at 7.

III. AMERITECH'S OVERHEAD COST FACTOR IS APPROPRIATE.

WorldCom argues that Ameritech's use of an overhead loading factor in connection with its expanded interconnection rates is inappropriate.[6] However, as the Commission noted in the Designation Order, in the tariff proceeding, no party commented on Ameritech's overhead loading factor -- the same factor the Commission approved on an interim basis in phase I of the virtual collocation investigation.[7] This is the reason that Ameritech did not go into detail on the use of its overhead factor in its cost calculations.[8] Nonetheless, the development of the overhead factor was set forth in the Description & Justification filed with Ameritech's Transmittal No. 697.[9] That material is included herewith as Attachment A.

However, WorldCom further complains that it was inappropriate for Ameritech to utilize 200 square feet of central office space to calculate the cost of providing 100 square feet of net usable floor space for collocation purposes.[10] WorldCom complains that the factoring of 50 additional square feet of space to accommodate dedicated walkways and building obstructions and 50 additional square feet to accommodate support space will result in double recovery since those costs are otherwise recovered in Ameritech's overhead loading factors.

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[6] WorldCom at 3-7.

[7] Designation Order at ¶67 and note 111.

[8] WorldCom at 7.

[9] Transmittal No. 697 was filed February 16, 1993, and introduced Ameritech's physical collocation offering and modified its virtual collocation offering.

[10] WorldCom at 4-6.

WorldCom is simply wrong. The methods Ameritech used in determining the costs associated with the floor space rate are consistent with forward-looking costing practices and commercial leasing practices. The method for calculating the floor space rate involves determining the amount of space Ameritech would construct, applying a forward-looking methodology, to accommodate an interconnecting customer. To accommodate an interconnecting customer, Ameritech would build 150 square feet of central office equipment space (a direct cost since the space is dedicated for use by the customer and since 150 square feet is needed to obtain 100 square feet of net usable space) and support it with 50 square feet of support space (a direct cost since the support space is attributable to the specific customer demand for central office equipment space). Therefore, the requirement of 200 square feet of gross building space is a direct cost of provisioning 100 square feet of net central office equipment space for an interconnecting customer. Further, contrary to WorldCom's allegations,[11] establishing the rate element based on the 100 square feet of net central office equipment space is consistent with commercial real estate practices when small amounts of space are involved.

Ameritech's practice of recovering building costs is consistent with the commercial real estate practice of full cost recovery. In commercial real estate, building costs are recovered based on rentable square footage, with costs averaged for each rentable square foot. This does not mean that costs to operate a building are captured only for that rentable area, it just means that the total costs for a building are divided by the rentable square footage to determine the square footage cost. Ameritech tracks its

[11] *Id.* at 5, note 11.

building costs by rentable square foot. In a central office building, rentable square footage would be the central office equipment space, including space for aisles and obstructions, and the support space, which includes access halls, mechanical rooms, electrical service entry and equipment rooms and rest rooms, etc. In determining the costs of providing collocation services and other services where space is occupied by specific equipment, Ameritech applies a floor space factor to account for the cost of provisioning space. For Ameritech's own equipment, the floor space costs are based on the rentable square feet of space occupied and space in support and are not included in general "overhead." Therefore, the method of recovering overhead costs in the floor space rate element is not duplicative, as WorldCom speculates.

WorldCom also argues that "costs associated with managing the real estate portion of the physical collocation projects" in the central office build-out charge should be considered overhead.[12] WorldCom takes this quote from Ameritech's direct case out of context. The actual text continues: "which is a fee that Ameritech pays to the provider of such project management services." Ameritech contracts the real estate engineering and construction administration of specific renovation projects to outside service providers. The costs paid for these services are directly attributable to accommodations for collocation. Therefore, they are direct costs and should be recovered by the cost-causer, which "is consistent with [Ameritech's] standard real estate practices." These real estate costs are also not duplicative, as WorldCom speculates.

[12] *Id.* at 6.

IV. AMERITECH'S DC POWER CHARGES ARE REASONABLE.

WorldCom complains that, by charging for power consumption on a "fuse amp" basis, Ameritech over-recovers its power costs. Alternatively, WorldCom suggest that Ameritech bill power consumption cost either on the amount of consumption that each collocator certifies its equipment to use or by deploying power meters and measuring and billing the actual power consumption.[13]

The methods suggested by WorldCom would involve additional costs which would have to be recovered. The "certification" method would involve collecting information from each collocator with respect to each specific piece of equipment that that collocator utilizes. Metering would involve significant cost associated with installing metering devices and with implementing billing system changes that would accommodate a variable power consumption charge. Moreover, there has been no showing that, overall, the benefits would outweigh the increased cost.

In light of the above and given the fact that Ameritech's power consumption rates are not out of line when compared to the rates of other local exchange carriers,[14] those charges must be regarded as reasonable.

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[13] *Id.* at 7-8.

[14] See, *e.g.*, US West Communications Tariff FCC No. 5, p. 21-62; Pacific Bell Tariff FCC No. 128, p. 667; Cincinnati Bell Tariff FCC No. 35, p. 259; GTE Telephone Operating Companies Tariff FCC No. 1, p. 361.1-361.3.

V. AMERITECH'S INCLUSION OF INCOME TAXES AS AN ELEMENT OF DIRECT COST IS APPROPRIATE.

WorldCom questions Ameritech's inclusion of income tax liability as an item in its cost studies. In particular, WorldCom argues that income tax ought to be computed as a component of reasonable profit. In fact, that is what Ameritech does. Just as the cost of capital is properly considered a direct cost of providing service, so also are taxes associated with that cost of capital. In factoring income tax as a direct cost, Ameritech estimated the income tax liability on the equity component of direct capital cost. This is the shareholder return component which effectively would be taxed as "income" to the corporation. (No income tax liability was included for the debt portion of capital cost since interest is tax deductible.)

Moreover, Ameritech's overhead loading factor was developed by determining the ratio of FDC to direct costs. Therefore, since income tax on the direct cost of equity capital has historically been treated as a direct cost, application of the standard overhead factor to total direct costs that include income tax on the direct cost of equity capital is consistent with an appropriate cost recovery methodology -- notwithstanding WorldCom's assertions to the contrary.

Finally, there is no merit to WorldCom's claim that Ameritech should further reduce its costs by the amount of "tax benefits" -- e.g., depreciation -- it might derive from providing collocation. In fact, since the amount of income tax liability included as a direct cost is based on shareholder return, it already takes into account the tax-deductibility of most of the other elements of direct cost -- e.g., interest, depreciation, etc. When calculating costs, Ameritech considers that expense items, such as depreciation,

maintenance, and interest on debt, reduce net income, and thus income tax. For every dollar of these expenses, Ameritech can earn a dollar of revenue without additional tax liability. This is considered in determining costs. Even when calculating income tax on shareholder return (equity financing), depreciation deductions are considered. Thus, the cost of money and income tax factors already consider reductions in net capital due to depreciation and no further adjustment is required.

VI. AMERITECH'S OCCUPANCY ESTIMATE FOR DUAL RISER CONDUIT IS REASONABLE.

WorldCom complains that Ameritech has not justified its 75% estimate for the average customer occupancy for dual riser conduit.[15] The basis for that estimate was contained in the description and justification filed with Ameritech's Transmittal No. 771.[16] That information is included as Attachment B. As is noted in that material, it is reasonably assumed that only one interconnector will typically use the diverse riser in a given office and that Ameritech will co-occupy that diverse riser in 50% or the cases. Those factors lead to an estimated 75% average occupancy by a single interconnector.

This estimate is a conservative one given the fact that the likelihood that Ameritech would occupy a diverse riser to the same extent as the collocator is much less than 50%. The diverse riser, because it would access the collocation area, would not be the most expedient or economical method for Ameritech to use to access its own equipment area.

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[15] WorldCom at 10-11.

[16] Transmittal No. 771 was filed January 25, 1994 and introduced the Diverse Riser rate element for Ameritech Interconnection service.

Therefore, Ameritech's rate for dual user conduit is reasonable.

VII. AMERITECH'S LIMITATION OF LIABILITY AND INDEMNIFICATION PROVISIONS ARE REASONABLE.

WorldCom complains that Ameritech's limitation of liability provisions are unreasonable in light of the risks to the parties.[17] This limitation of liability is not inherently different from the one that applies to Ameritech provision of other telecommunications services. Neither Ameritech, nor any other carrier, undertakes to deliver messages. Rather, they simply provide the means by which messages can be delivered. The difference is significant. If a carrier undertakes to deliver messages, it could become liable for the foreseeable value of the content of the messages that it failed to deliver -- a potential exposure far in excess in remuneration the carrier receives for the service it provides. Since the carrier undertakes only to provide the means by which messages can be delivered, limiting liability to a pro-rata credit for the interruption of that means is reasonable.

Providing space for collocated equipment is essentially similar. Assuming liability for consequential damages would involve exposure far in excess of the income derived from the service provided.

Similarly, every commercial lease limits the landlord's liability in several ways against claims from a tenant for losses to the tenant's business if the tenant cannot use the leased premises for any variety of reasons, whether caused by the landlord or not: fire or other casualty, leaking roof, power failure, etc. The limitation is in the form of

[17] WorldCom at 11-13.

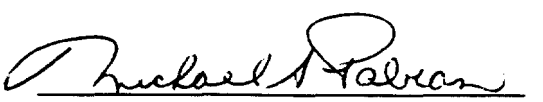
exclusions of incidental or consequential damages for loss of business. Instead, the tenant's remedy is usually limited to a pro-rata abatement of rent. This is common, expected, and completely reasonable. The landlord knows the tenant is doing business and depends upon the location, but the landlord cannot reasonably undertake to insure the business of its tenant and still offer the space at rents that are commercially acceptable. In fact, people would not go into the business of leasing commercial space if they could not limit liability in this regard.

In the final analysis, then, these tariff terms must be considered reasonable.

VIII. CONCLUSION.

In light of the forgoing, the Commission should conclude that Ameritech's tariff provision governing its collocation services are reasonable.

Respectfully submitted,



Michael S. Pabian
Counsel for Ameritech
Room 4H82
2000 West Ameritech Center Drive
Hoffman Estates, IL 60196-1025
(847) 248-6044

Jeffrey Hutchinson
Manager Business Unit Advocate

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ATTACHMENT A

Any labor costs incurred will be charged to the customer on a time and materials basis at the time the plug-in equipment is requested.

Appendix 3 provides details of each rate element's cost development and Appendix 4 displays a diagram of a typical AVOIS arrangement and the associated cost elements.

3.3 Ameritech Microwave Interconnection Service

Rate elements, rates and regulations for Ameritech Microwave Interconnection Service will be developed and filed upon receipt of a bona fide request from a customer to provide microwave interconnection.

3.4 Electrical Cross-Connection Service

The Electrical Cross-Connection Service (ECCS) is the cross connect between the customer's facilities and the AOCs' Special Access OPTINET DS1 and OPTINET DS3 services. There is a separate monthly recurring rate element for both the DS1 and DS3 cross-connects. Exhibit 1 displays the direct cost and fully distributed cost for ECCS rate elements.

The costs for this element include the cost of repeaters necessary to maintain the customer's signal between their dedicated termination panel and the company's DSX panel. The costs have been determined for both DS1 and DS3 circuits. In addition, the costs for jumper cables between DSX panels have been included.

4. Development of Overhead Loadings

Overhead loadings were developed for the ACOI and AVOIS rate elements through use of a Special Access Loading Factor. This factor provides a practical means to apportion common and joint costs among the rate elements in a uniform fashion.

A Special Access revenue requirement, adjusted for an 11.25% rate of return, was computed from the 1991 ARMIS 43-01 data. This was compared to the direct costs of all Special Access services as determined by multiplying the direct unit costs for each rate element by the 1991 demand. The ratio of the direct costs to the revenue requirement is the Special Access loading factor which was applied to the direct unit cost to produce fully

distributed costs. Details of the loading factor development are shown on Exhibit 5. The fully distributed costs for each rate element are displayed in Exhibits 1 and 4 as discussed previously.

5. Demand

Demand for the Ameritech Interconnection Services was developed through discussions with many customers that may wish to interconnect to Special Access services. Potential interconnection customers include Interexchange Carriers, Competitive Access Providers and end users.

Ameritech Virtual Optical Interconnection Service currently offers one vendor's equipment, the AT&T DDM 1000 technology. The AOCs anticipate additional requests for other vendor's equipment, and are prepared to add these to the tariff upon request from a customer. We do not anticipate additional demand for the AT&T DDM 1000 equipment in Indiana, Michigan, Ohio and Wisconsin.

Currently in Illinois, there is existing demand for the AT&T DDM 1000 equipment purchased under the authority of the effective Ameritech Optical Interconnection tariff (interim filing). It is expected that this demand will migrate to ACOI within the first year that ACOI is available.

Exhibit 6 shows a three year forecast of demand by rate element for ACOI, AVOIS and ECCS.

6. Basis of Ratemaking

In compliance with the Commission's requirement to evenly distribute overheads, the proposed rates for the Ameritech Interconnection Services were set equal to the direct costs times the overhead loadings factor described in Section 4 above.

Exhibit 6 displays each rate element, the demand for each element, the proposed rate for each and the demand time the proposed rate for each element.

AMERITECH CENTRAL OFFICE INTERCONNECTION
SPECIAL ACCESS INTERCONNECTION
OVERHEAD LOADING FACTOR

EXHIBIT 5

	SOURCE	$(000'S)
1. SPECIAL ACCESS REVENUE REQUIREMENT @ 11.25%	1991 ARMIS 43-01	260,854
2. SPECIAL ACCESS DIRECT COSTS	UNIT COSTS W/ 1991 DEMAND	164,646
3. OVERHEAD LOADING FACTOR	LN 1/LN 2	1.58

ATTACHMENT B

DESCRIPTION AND JUSTIFICATION

Introduction

With this filing the Ameritech Operating Companies (Ameritech) introduce a Diverse Riser rate element for the Ameritech Interconnection Service offered in Section 16 of Tariff F.C.C. No. 2. This new rate element is offered to recover costs associated with accommodating customer requests for diverse riser space within a central office. The proposed rate element applies when a new riser must be built to provide diversity for the customer and will not apply if diverse riser space is already available in the subject central office. The diverse riser is an optional feature for both physical (ACOI) or virtual (AVOIS) interconnection.

Cost Development

The investments identified for the Diverse Riser element are those associated with establishing a diverse riser for placing cable from the central office cable vault to the customer's Transmission Node or LGX panel for ACOI or AVOIS respectively. The investment consists of capital material, engineering and labor required to bore a hole through the floor, place a metal conduit sleeve secured with collars in the hole, and seal the sleeve with fire retardant putty. The investment assessed to the customer is only seventy five percent (75%) of the total investment based on assumptions that (1) only one interconnector will typically use the diverse riser in a given office, and (2) Ameritech will co-occupy the diverse riser in fifty percent (50%) of the cases.

50% x 100% occupancy + 50% x 50% occupancy
= (.5 x 1.0) + (.5 x .5)
= 75% average occupancy by interconnector

Annual costs were computed from the investment by applying an annual cost factor which reflects capital and non-capital costs. An overhead loading factor of 1.58 was then applied to arrive at the total fully distributed cost.

Basis of Ratemaking and Application of Charge

Discussions with customers indicated a preference for a one time charge rather than paying recurring costs. In response to this preference, a one time charge was determined by calculating the present value of the total annual cost over a seven year period.

This charge will apply once for each floor boring required. For example, if the diverse cable route requires boring of three floors, the charge will apply three times. If diverse riser space (i.e., floor borings) already exists in the central office, the Diverse Riser charge will not apply.

Effect on Other Services

Demand for this element is very small. The effect of this proposed new element on other services is de minimis.

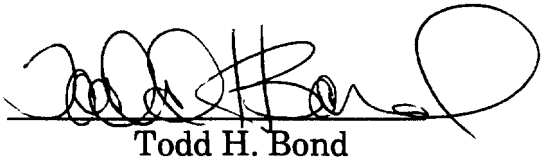
AMERITECH
INTERCONNECTION

DUAL RISER COST

	AMERITECH
TOTAL INSTALLED INVESTMENT	$500.00
AVERAGE % OCCUPANCY BY CUSTOMER	75%
INVESTMENT ATTRIBUTED TO CUSTOMER	$375.00
ESTIMATED RECURRING COSTS:	
Depreciation	$16.91
Cost of Money	29.29
Income Tax	13.08
Maintenance	5.25
Administrative Overhead	0.00
Incremental Expense	0.00
Other Recurring Expense	0.00
Ad Valorem Tax	4.80
Gross Receipts Tax	1.12
Total Annual Cost:	$70.45
Total Demand Weighted Annual Amount (including 1.58 Loading Factor	$112.27
Total PV	$442.21
Total Non-recurring Rate Per Customer Per Floor Traversed	$442.21
Ratio Direct Cost to Direct Investment	0.1879

CERTIFICATE OF SERVICE

I, Todd H. Bond, do hereby certify that a copy of the foregoing Rebuttal of Ameritech In Response to Opposition to Its Direct Case has been served on the parties listed below, via first class mail, postage prepaid, on this 7th day of May, 1997.

By: 
Todd H. Bond

Don Sussman
Regulatory Analyst
MCI Telecommunications Corporation
1801 Pennsylvania Avenue, NW.
Washington, D.C. 20006

Andrew D. Lipman
Russel M. Blau
Counsel for
WorldCom, Inc.
Swidler & Berlin, Chtd.
3000 K Street, N.W., Suite 300
Washington, D.C. 20007